MOODY'S
INVESTORS SERVICE

Rating Action: Moody's revises Rhode Island School of Design's (RI) outlook to negative; affirms A1

03 Sep 2020

New York, September 03, 2020 -- Moody's Investors Service has revised Rhode Island School of Design's, (RI's) outlook to negative from stable. Concurrently, we affirmed A1 ratings on $196 million of outstanding revenue bonds.

RATINGS RATIONALE

The revision of the outlook to negative reflects expectations of a continued weakening in RISD's operating performance stemming from existing financial pressure exacerbated by the negative impact of the coronavirus pandemic. Relative to similarly rated peers, RISD's exposure to pressures from the pandemic are elevated due to its niche market and high revenue dependence on student charges, with a comparatively high proportion of international students and its hands-on educational model that complicates expense reductions. Weaker operating performance through at least fiscal 2021 will require use of reserves. This reduces the school's financial flexibility as it faces a more challenging revenue environment, potentially extending a return to a stronger financial performance. Expense pressures reflect investments in fundraising operations and upgrading facilities, which, while integral to the school's long-term strategy, will take several years to show beneficial impacts.

Affirmation of the A1 ratings is based on RISD's strong national and global reputation as an art and design school, with yield on admitted students exceeding peers and a high level of net tuition revenue per student -- although this could ease in fiscal 2021 -- demonstrating clear demand. Flexible financial reserves provide a healthy buffer to financial operations amounting to 2.1x operating expenses. Liquidity remains favorable with 388 monthly days cash on hand and provides good coverage of demand debt by 2.1x for fiscal 2019. Offsetting challenges include relatively high leverage compared to peers with some exposure to a complex debt structure including variable rate debt with financial covenants and swaps. Narrowing cash flow along with elevated leverage contributes to significantly lower debt affordability.

The coronavirus outbreak and deteriorating global economic outlook are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. In fiscal 2020 RISD experienced a decline in auxiliary revenues from housing and dining operations as well as losses during the summer due to the cancellation of its Continuing Education program. Revenue losses were only partially offset by expenses due to difficulties in reducing compensation costs. The school will reopen in fall 2020 with a hybrid approach with students attending labs and studios in person and taking a majority of courses online. Some students will be on campus in student residences but at a reduced density. Cost reductions to offset revenue declines are wide ranging but a portion of the gap in fiscal 2021 will be drawn from reserves. RISD's favorable market position and strong reserves position the institution fairly well to navigate through short-term operating challenges.

RATING OUTLOOK

The negative outlook reflects our expectations that a return to stronger cash flow margins of near 15% and growth in unrestricted reserves will take longer to occur given the potential for prolonged revenue and operational disruptions linked to the coronavirus and expenses required to maintain a high cost model.

The outlook could return to stable if the school is able to successfully mitigate the financial impacts of the coronavirus in fiscal 2021 and thereafter, yielding improved operating performance.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Substantial increase in financial reserves to support elevated leverage

- Greater diversification of revenue including increased fundraising

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained decline in operating performance

- Inability to keep pace with peers in growing cash and investments

- Material weakening of monthly liquidity especially given nearly 40% exposure to demand debt

- Additional material financial leverage

LEGAL SECURITY

The revenue bonds are a general obligation of the college and additionally secured by a pledge of the unrestricted college revenues. There is an intercreditor agreement whereby all recoveries of unrestricted college revenues securing parity obligations shall be shared on a pari passu basis among the bondholders, the LOC banks, and the swap counterparties.

PROFILE

Founded in 1877 and located in Providence, Rhode Island, RISD is one of the country's oldest arts and design schools serving undergraduate and graduate students. In fall 2019, it had full-time equivalent students (FTEs) of 2,500. In addition to its art and design focused curriculum, the school houses one of the largest and most valuable art collections among colleges and universities. RISD's total revenue was $161 million in fiscal 2019.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in May 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1175020 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Debra Roane
Lead Analyst

Higher Education
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Dennis Gephardt
Additional Contact
Higher Education
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653